

## TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS	
<b>Cash Receipts</b>	
Mail Pick-Up	2-3
Recording the Disposition of Warrants on the FIA61	3-4
Verification of Deposits	4
<b>Cash Disbursements</b>	
Supporting Documentation for Local Office Payments	4-5
Authorizing Signatures on Payment Authorizations	5-6
Signature Card for the Disbursing Bank Account	6
<b>General Ledger</b>	6
<b>Modified Accrual Basis Balance Sheet</b>	6
<b>Safe and Controlled Documents</b>	6
<b>State Emergency Relief</b>	
Supporting Documentation for SER Payments	6-7
Duplicate SER Payment	7-8
<b>Direct Support Services</b>	
Supporting Documentation for Direct Support Services Payments	8
Vehicle Repair in Excess of Policy	9
Documenting Customer Eligibility for Vehicle Repairs and Insurance	9-10

Incorrect Input of Direct Support Services Disbursements Data on LASR	10
<b>Customer Processing</b>	
Assignment of Applications to FIS and ES Specialists	11
Reassignment of Cases Opened by Out-stationed Specialists	11-12
<b>CIMS/ASSIST/LASR</b>	
CIMS and ASSIST Enrollment Profile/Security Agreements	12-13
Inconsistent CIMS Status and ASSIST Job Types for Staff	13-14
LASR Access by the Administrative Support Manager	14-15
Review and Certification of the PF-011 and VB9-554	15
Reconciliation of the LASR Security Officer's Log Report (LR853)	15
<b>IRS Information Security</b>	
Control of Forms to Maintain Confidentiality	16
<b>Payroll and Timekeeping</b>	
Payroll Certification	16-17
Payroll Reconciliation	17
Signing the Employee Time and Attendance Record (FIA-4299)	17-18
<b>Procurement Card</b>	18

## **INTRODUCTION**

The Office of Internal Audit performed an audit of Muskegon County FIA for the period December 1, 2001 through July 21, 2003. The objective of our audit was to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Muskegon County FIA had 186 full time equated positions (FTE's) at the time of our review. Muskegon County FIA provided assistance to an average 16,289 recipients per month in FY 2001, with total assistance payments of \$24,675,472 for the fiscal year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Muskegon County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts

Cash Disbursements

General Ledger

Modified Accrual Basis Balance Sheet

Safe and Controlled Documents

State Emergency Relief (SER)

Direct Support Services

Customer Processing

CIMS/ASSIST/LASR

IRS Information Security

Payroll and Timekeeping

Procurement Card

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that Muskegon County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. The receipts process, disbursement process, Client Information Management System, ASSIST, and LASR system access and security need improvement to strengthen controls.

The CIMS and ASSIST Security Coordinators informed us prior to completion of our onsite work that they had corrected the deficiencies relating to the Client Information Management System and ASSIST system access and security reported in Finding # 15. We were also informed at the exit conference that a new signature card for the disbursing bank account had been filed (Finding # 6). Muskegon County FIA was also in the process of enrolling staff on LASR that would be responsible for reconciling the LASR Security Officers' Log Report reported in Finding # 21.

## **LOCAL OFFICE RESPONSE**

The management of Muskegon County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated September 11, 2003 that they are in general agreement with the report.

### **Cash Receipts**

#### **Mail Pick-Up**

1. Muskegon County FIA has one staff pick up the mail at the Post Office in unlocked bags and containers. Internal Control Criteria dated June 2002, page 34, requires two staff to pick up unsecured mail, or one person if the mail is secured by the Post Office.

Requiring two staff to pick up the mail or using secured mailbags or containers provides assurance that cash and negotiable instruments received in the mail are not lost or diverted for personal use.

WE RECOMMEND Muskegon County FIA have two staff pick up the unsecured mail at the Post Office or have the Post Office place the mail in secured bags or containers.

#### Recording the Disposition of Warrants on the FIA-61

2. Muskegon County FIA did not always enter warrant disposition information on the Record and Disposition of Checks/Warrants (FIA-61) or dispose of the warrants in a timely manner.

In April 2003, eleven warrants were recorded on the FIA-61 without a disposition. None of the warrants were on file in the fiscal office. Two warrants recorded on the FIA-61 on 4/15/03 were on file in the Fiscal Office as of 5/15/03.

Accounting Manual Item 462 requires a disposition and date to be entered on the FIA-61 when a warrant is disposed of. Accounting Manual Item 462 also states that disposition action must be taken by the FIS/ES staff within ten days after notification by the fiscal office.

WE RECOMMEND Muskegon County FIA record the disposition of warrants on the FIA-61 at the time the warrants are disposed of.

WE ALSO RECOMMEND Muskegon County FIA require staff to determine the disposition of the warrants within ten days of notification.

### Verification of Deposits

3. Muskegon County FIA did not follow established procedures for verifying that funds received through the mail were deposited. The Local Office did not have staff independent of the cash receipting process verify that all of the funds received were included in a deposit.

Accounting Manual Item 433, page 3, requires verification that all moneys received by the Cashier are included in the deposit. This is accomplished by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail logs and edit listing prior to depositing funds improves internal controls over the cash receipting process.

WE RECOMMEND Muskegon County FIA verify that all funds received by the Cashier are included in the deposits.

### Cash Disbursements

#### Supporting Documentation for Local Office Payments

4. Muskegon County FIA staff did not submit the appropriate documentation to the Fiscal Office for payments made at the Local Office. We examined 63 payment documents on file in the Fiscal Office. The documentation for 9 of 30 payments examined for activities 011 (State Emergency Relief), 017 (Emergency Services), and

018 (Family Reunification) were photocopies of an invoice/bill. Two Emergency Services payments did not have an invoice/bill attached to the payment request.

Attaching the original bill/invoice for the amount to be paid to the payment authorization submitted to the Fiscal Office provides assurance that payments are accurate and appropriate.

WE RECOMMEND Muskegon County FIA attach the original bill/invoice to the payment authorization submitted to the Fiscal Office.

#### Authorizing Signatures on Payment Authorizations

5. Muskegon County FIA did not ensure that payment documents submitted to the Fiscal Office were properly authorized.

Two Early Payments and one State Emergency Relief Payment of twenty-four payments examined were not signed by the staff requesting and authorizing the payment.

Accounting Manual Item 411, page 2, for processing Early Payments states an EP authorization must contain an original signature; copies are not acceptable. Valid signature is a minimum of first initial and last name.

This standard for an authorizing signature should be applied to all Local Office payments.

Properly signed payment authorizations are required to provide assurance that payments are accurate and appropriate.

WE RECOMMEND Muskegon County FIA ensure that all payment authorizations processed by the Fiscal Office include the original, valid signature of the staff requesting the payment.

**Signature Card for the Disbursing Bank Account**

6. Muskegon County FIA did not have a current signature card on file with the bank for the disbursing bank account.

The signature card on file with the bank had the previous Muskegon County FIA Director on as an authorized check signer.

WE RECOMMEND Muskegon County FIA file a new signature card with the bank.

**General Ledger**

No findings in this area

**Modified Accrual Basis Balance Sheet**

No findings in this area

**Safe and Controlled Documents**

No findings in this area

**State Emergency Relief**

**Supporting Documentation for Payments**

7. Muskegon County FIA did not follow established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the



FIA-849, 93(A) Issuance Report (ES-440). A review of 90 transactions on the April 2003 ES440 Report disclosed seventy-three (81%) payments that did not have original documentation attached to the Authorization Invoice (FIA-849) on file in the Fiscal Office. Eight (9%) did not have an authorizing staff signature on the FIA-849 or transaction screen-print.

Internal Control Criteria dated June 2002, page 19, requires an original invoice/bill or Fax (with vendor identification) to be attached to the FIA-849/screen print forwarded to the Fiscal Office for reconciliation to the ES-440 report. If these are not available a Documentation Record (FIA-223) with name of vendor contact, telephone number, date and time of contact and amount to resolve the emergency is to be attached to the FIA-849/screen print.

Attaching the original invoice/bill/fax for the amount to be paid to the Fiscal Office copy of the FIA-849/screen print helps to ensure that payments are accurate and appropriate.

WE RECOMMEND Muskegon County FIA attach the original invoice/bill/fax to the Fiscal Office copy of the Authorization Invoice (FIA-849).

#### Duplicate SER Payment

8. Muskegon County FIA did not establish adequate control over disbursements to prevent duplicate payments. As reported in Finding #7, SER payments were made using photocopies of invoices/bills as supporting documentation. As a result, a duplicate payment was made on behalf of a customer for a Consumers Energy shutoff notice. One payment of \$783.50 was made to the wrong supplier, DTE Energy. A second payment for \$600.00 was made to the correct supplier,

Consumers Energy. Documentation for both payments was a photocopy of the same Consumers Energy shut off notice. The original Consumers Energy shutoff notice was located in the case record. A CIMS warrant inquiry indicates the warrant incorrectly issued to DTE Energy has been cashed.

WE RECOMMEND Muskegon County FIA recoup the \$783.50 that was incorrectly issued to DTE Energy.

### **Direct Support Services**

#### **Supporting Documentation for Direct Support Services Payments**

9. Muskegon County FIA staff did not submit the appropriate documentation to the Fiscal Office for Direct Support Services payments. We examined 51 (12.3%) of 415 payments. The documentation attached to the FIA-4663 (Employment and Training Expenditure Authorization) for nineteen of the payments examined were photocopies of an invoice or an estimate.

Internal Control Criteria dated June 2002, page 19, require an original invoice/bill or fax from the vendor to be attached to the FIA-4663. If these are not available a FIA-223 (Documentation Record) is to be attached to the FIA-4663.

Attaching the original invoice/bill for the amount to be paid to the FIA-4663 submitted to the Fiscal Office provides assurance that payments are accurate and appropriate.

WE RECOMMEND Muskegon County FIA attach the original invoice/bill to the Employment and Training Expenditure Authorization (FIA-4663) submitted to the Fiscal Office.

#### Vehicle Repair in Excess of Policy

10. Muskegon County FIA did not follow established Direct Support Services policy for the vehicle repair for one customer. In July 2002 Muskegon County FIA paid \$851.53 to repair the customer's vehicle. Examination of the case record and LASR payment history disclosed additional repairs of \$684.57 in December 2001 and January 2002. For the period 12/1-7/02 (seven months) total repairs equaled \$1536.10, which is \$636.10 over the \$900.00 maximum for a 12 month period.

Program Eligibility Manual Item 232 (5/1/02), page 9, stated that repairs may be authorized up to \$900.00 per recipient in any twelve month period. Policy effective 5/1/03 states that repairs can not exceed \$900.00 including any repairs done in the previous 12 months, and that the repair is expected to make the vehicle safe and roadworthy.

WE RECOMMEND Muskegon County FIA limit vehicle repairs for each customer to the \$900.00 maximum allowed for a 12 month period.

#### Documenting Customer Eligibility for Vehicle Repairs and Insurance

11. Muskegon County FIA did not establish customer eligibility for vehicle repairs or insurance for at least six payments. We selected a sample of 12 of the fifty-one payments for examination of the case record. We examined 11 case records to determine if the Specialist properly documented eligibility of the customer for the Direct Support Services payment. One case had been transferred to another county. Ten of the cases we examined had payments for vehicle repairs or insurance.

Six of the case records examined did not have documents on file to establish customer ownership for the vehicle that was repaired or the vehicle insurance that was purchased.

Program Eligibility Manual Item 232 states that the Specialist should ensure that an eligible group member owns the vehicle before authorizing a major repair.

Failure to document ownership of the vehicle establishes the risk of making a payment for a vehicle that is not owned by the customer or eligible group member.

WE RECOMMEND Muskegon County FIA document customer ownership of vehicles in the case record before authorizing payments for vehicle repairs or insurance.

#### Incorrect Input of Direct Support Services Disbursements Data on LASR

12. Muskegon County FIA did not always correctly enter Direct Support Services payment data on LASR. We identified 19 LASR data input errors, including incorrect customer names and incorrect expense account classifications.

Correct input of Direct Support Services disbursement data on LASR is required to provide assurance that limits on certain Direct Support Services payments are not exceeded.

WE RECOMMEND Muskegon County FIA accurately input Direct Support Services customer information and expense account data on LASR.

## **Customer Processing**

### **Assignment of Applications to FIS and ES Specialists**

13. Muskegon County FIA did not use the ASSIST assigned Family Independence or Eligibility Specialist to process applications. A designated unit does customer intake each day. FIS and ES specialists are assigned by ASSIST during the registration interview process. After completing registration, the case is given to the intake unit FIM who overrides the ASSIST FIS or ES assignments using the Block Reassignment Transfer (BLASTR) transaction to reassign a specialist on a rotating basis. All but one of the FIMs has update capability on CIMS and Registration capability on ASSIST.

Internal Control over the initial assignment of an application is weakened when the ASSIST Specialist assignment is manually reassigned to a Specialist by the intake unit FIM.

WE RECOMMEND Muskegon County FIA have the ASSIST assigned FIS or ES specialists process the application.

### **Reassignment of Cases Opened by Out-stationed Specialists**

14. Muskegon County FIA did not establish adequate control over the reassignment of cases opened by Out-stationed Specialists. The Out-stationed Specialist contacted RSS staff to determine which Specialist was to receive the case, reassigned the case on ASSIST, and passed the case to the Specialist.

Internal Control over this process can be improved by having the Out-stationed Specialist forward the opened case to the RSS staff, and having the RSS staff assign and pass the case to the Specialist receiving the case.

WE RECOMMEND Muskegon County have RSS staff assign and pass cases opened by the Out-stationed Specialist to the ongoing Specialist.

### **CIS/ASSIST/LASR**

#### **CIMS and ASSIST Enrollment Profile/Security Agreements**

15. Muskegon County FIA did not have current and accurate Client Information Management System (CIMS) Security Agreements (FIA-3974A) or ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721) on file for staff who access CIMS and ASSIST.

Our review disclosed forms that were not signed by staff or supervision, staff with name changes that did not have new forms prepared, status codes on the Operator Identification Report (PF-011) and job types on the Monthly User Listing (VB9-554) that were different than that reported on the forms, and forms could not be located for staff.

Security Policy L-Letter L-97-063 requires an FIA-3974A or FIA-3720 and FIA-3721 to be prepared for all new users of CIS and ASSIST and for all current operators each time an enrollment change is proposed.

WE RECOMMEND Muskegon County FIA review the Client Information Management System Enrollment Profile/Security Agreements (FIA-3974A) and

ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721) to determine that correct and accurate forms are on file for all staff.

#### Inconsistent CIMS Status and ASSIST Job Types for Staff

16. Muskegon County FIA had assigned Client Information Management System (CIMS) status levels that were inconsistent with staff job responsibility. The Administrative Support Manager/Personnel and ten RSS and support staff had been assigned “FLM” and/or “CRS” status on CIMS and job type 360 (RSS) on ASSIST.

Also, five FIMs and the Licensing Adoption Manager had been assigned “FLM” or “FIS” status on CIMS. The five FIMs and Adult Services Manager also had ASSIST job type 360 (RSS) on ASSIST.

In addition, Muskegon County FIA had assigned the District Manager “FIS” status on the Client Information Management System (CIMS) and ASSIST job type 280 (FIM) and 360 (RSS) on ASSIST.

Internal Control Criteria dated June 2002, page 65, states that if a person has the ability to assign new case numbers and register applications in ASSIST and perform the full range of file maintenance transactions on CIMS, this one person has complete control of a transaction. If staff are assigned a status level above inquiry on CIMS and have registration capability on ASSIST, an independent person must review all of their CIMS transactions appearing on the Transaction Control Report (MA010).

Assigning staff a CIMS status and ASSIST job types that allows them to register and open cases does not allow for the proper separation of duties.

WE RECOMMEND Muskegon County FIA change the CIMS status of the Administrative Support Manager/Personnel to Inquiry and ASSIST job type to 370 (RSS Supervisor).

WE ALSO RECOMMEND Muskegon County FIA change the CIMS status of the RSS and support staff to inquiry or “IRG” only and the FIMs and Licensing Adoption Manager to inquiry, or have independent staff review any of their transactions that appear on the Transaction Control Report (MA-010).

IN ADDITION, WE RECOMMEND Muskegon County FIA delete the District Manager’s FIS status on CIMS and the 280 (FIM) and 360 (RSS) job types on ASSIST.

WE FURTHER RECOMMEND Muskegon County FIA remove the ASSIST job type 360 (RSS) from the FIMs and Adult Services Managers’ job profiles.

#### LASR Access by the Administrative Support Manager

17. Muskegon County FIA did not limit access to LASR to the Fiscal staff. A review of the LASR User Responsibilities Listing (LR-890) disclosed the Administrative Support Manager has access to all responsibility levels on LASR. The Administrative Support Manager at the present time does not perform any duties that require access to LASR.

Internal Controls are weakened when a staff whose current job functions do not require system access are allowed access to a system.



WE RECOMMEND Muskegon County FIA remove the Administrative Support Managers access to LASR.

Review and Certification of the PF-011 and VB9-554

18. Muskegon County FIA did not have supervisory staff review the Client Information Management System (CIMS) Operator Identification Report (PF-011) or the ASSIST Monthly User Listing (VB9-554).

Internal Control Criteria dated June 2002, page 63, requires the PF-011 report and the VB9-554 to be reviewed and certified by management/supervision to verify the access on the reports agrees with the user's current job function.

WE RECOMMEND Muskegon County FIA have management/supervision review the Operator Identification Report (PF-011) and the ASSIST Monthly User Listing (VB9-554) in order to verify that access levels agree with current job functions for staff.

Reconciliation of the LASR Security Officer's Log Report (LR-853)

19. Muskegon County FIA did not have staff reconcile the LASR Security Officer's Log (LR-853) report with the LASR Security Access Request (FIA-84).

Internal Control criteria dated June 2002, page 63, and L-letter 02-088-Systems requires a complete reconciliation of the LASR Security Officer's Log Report (LR-853) with the LASR Security Access Request (FIA-84).

WE RECOMMEND Muskegon County FIA have staff reconcile the LASR Security Officer's Log Report (LR-853) with the LASR Security Access Request (FIA-84).

## **IRS Information Security**

### **Control of Forms to Maintain Confidentiality**

20. Muskegon County FIA did not follow FIA procedures for safeguarding the confidentiality of Internal Revenue Service (IRS) Data.

One FIA-4487A (Unearned Income Notice) dated November 2, 2002 was discovered in a case record.

IRS forms must be delivered to the Designated Staff Person (DSP) in order to maintain the confidentiality of the IRS information as required by Program Administrative Manual (PAM) Item 803.

WE RECOMMEND Muskegon County FIA staff deliver the IRS forms to the Designated Staff Person.

## **Payroll and Timekeeping**

### **Payroll Certification**

23. Muskegon County FIA did not establish adequate control over the payroll certification and review process.

The time keepers at Muskegon County FIA certified the payroll on the Data Collection Distribution System (DCDS) before the payroll was reviewed and approved by management responsible for certifying the payroll.

Internal Control criteria dated June 2002, page 57, requires the payroll be certified on DCDS after the authorized certifier reviews and approves the Time and Attendance Summary Report (HR-332A).

WE RECOMMEND Muskegon County FIA certify the payroll on the Data Collection Distribution System (DCDS) after the authorized certifier has reviewed and approved the payroll.

#### Payroll Reconciliation

24. Muskegon County FIA did not reconcile the Time and Attendance Summary Report (HR-332A) with a Time and Attendance Summary Report (HR-332A) printed after the payroll had been certified on the Data Collection Distribution System (DCDS), as recommended by the Internal Control Criteria dated June, 2002.

This reconciliation is necessary to ensure that no changes were made to the payroll after the certifier signed the original HR-332A.

WE RECOMMEND Muskegon County FIA reconcile the Certified Time and Attendance Summary Report (HR-332A) with the Time and Attendance Summary Report (HR-332A) printed after the payroll has been certified on the Data Collection Distribution System (DCDS).

#### Signing the Employee Time and Attendance Record (FIA-4299)

25. Muskegon County FIA did not establish adequate control over the preparation of payroll documents. A review of the payroll for the Pay Ending 3/29/03 disclosed one Employee Time and Attendance Report (FIA-4299) that had not been signed by the employee and three that had not been signed by a supervisor.

Internal Control criteria dated June 2002, page 57, requires that the employee accurately complete the FIA-4299 and the supervisor approve the employee time sheet, attesting to the accuracy of all reported time.

WE RECOMMEND Muskegon County FIA have all Employee Time and Attendance Reports (FIA-4299) signed by the employee and the supervisor.

**Procurement Card**

No findings in this area